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Analysis of Business Trends Plus Selected Financial Indicators

Bright Prospects for the Industrial Economies

Although the problems of the debt-ridden countries of Latin America and the poverty-stricken nations of Africa and many parts of Asia are all too apparent, the industrial economies appear to be in better overall health now than at any time since the 1960s. The 1980s certainly haven't been easy for policymakers of the industrial nations. They've had to struggle with the inflationary effects of the sharp OPEC oil price increases of the 1970s, record high interest rates, a severe global recession, high unemployment, a better than 90 percent surge of the dollar on the foreign exchange markets, and the steepest global stock market crash since 1929. Yet, these economies, for the most part, will leave the 1980s experiencing fairly robust economic growth, relatively low inflation rates, and, in most cases, declining rates of unemployment.

Looking back to the beginning of the decade, in 1980 the industrial economies recorded a real average growth rate of only 1.4 percent. In that same year, their average inflation rate was in double digits, while they posted a rate of unemployment close to six percent. This year, however, as these economies leave the troublesome 1980s, they are growing at a healthy and sustainable real average rate of 3½ percent, following 1988's four percent clip.

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At the same time, despite healthy economic growth in most of the industrial world, inflation is more or less under control. While some countries have had more success with battling price increases than others, the inflation rate in the industrial economies is expected to average around 4½ percent this year, less than half the 12 percent average inflation rate posted in 1980. Robust economic growth is obviously creating new jobs throughout the industrial world. While this year's expected average unemployment rate of seven percent is higher than the 5.8 percent figure posted at the beginning of the decade, it is well below the peak of almost nine percent reached in 1983.

An Investment Boom Sets the Pace

Several factors have led to today's investment boom throughout the industrial world. Perhaps the most important is the implementation of free market economic policies by the governments of most of these countries. While Reaganomics in the United States and Thatcherism in the United Kingdom come to mind immediately, even Socialist governments in France and Spain have done much to deregulate their economies in recent years. Such factors as the liberalization of capital flows among nations, the privatization of government-owned companies, the dismantling of trade barriers, the pro-business attitude of most governments, the rapid spread of technological innovations—and the slashing of marginal tax rates—have all helped to encourage private investment, both domestic and foreign.

At the same time, the need for European businesses to compete in a barrier-free internal market by 1992 has sparked an investment boom in Europe. In order to be able to function in an unprotected environment, investment in plant, equipment and infrastructure has been soaring at unprecedented rates.

Sound economic policies by the governments of most of the major industrial nations have also helped to build investor confidence, thereby encouraging businesses to increase private investment. For example, the general move toward an easier monetary policy in the G-7 nations following the 1987 stock market crash helped avoid a recession last year. More recently, when robust economic growth increased inflationary pressures worldwide at the end of last year and earlier this year, the central banks were quick to tighten monetary policy. As a result, even such high-inflation countries as the United Kingdom, Italy and Spain have posted declines in their year-over-year inflation rates in the past few months.

World Trade Growth Also Contributes

Growth in world trade over the past few years has also made a marked contribution to the current dynamism of the industrial economies. Reflecting the increasing globalization of busi-

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nesses, the liberalization of capital flows, the dismantling of trade barriers and a surge in capital goods exports, the volume of world merchandise trade soared by 8½ percent last year, a record for the decade, and is set to grow by another seven percent this year. Last year, also, the value of world merchandise trade reached $2.88 trillion, up 14½ percent from 1987. The benefits of greater economic integration, including the U.S.-Canada Free Trade Agreement and the unification of the European market in 1992 are likely to generate even larger international exchanges of products in the 1990s.

Because the United States accounts for over 30 percent of the world's gross national product, the possibility that the Federal Reserve will be able to engineer a "soft landing" here has boosted confidence in the economic prospects of the other industrial countries. What's more, as the U.S. economy slows, the German economy, whose growth had lagged the rest of Europe's for most of this decade, will be able to pick up the slack.

Led by sharp increases in export earnings, business investment and income from foreign in-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/18/89)	218,976	+ 1,007	+ 24,810
New York City (10/25/89)	42,378	+ 131	+ 1,437
Commercial Paper (10/25/89)	511,464	- 2,858	+ 83,391

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/18/89)	318,729	- 374	+ 20,253
New York City (10/25/89)	60,217	- 375	+ 4,743

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/18/89)	988,407	+ 2,410	+ 85,648
New York City (10/25/89)	183,320	- 1,360	+ 12,509

Financial Markets

	Friday 11/3/89	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.08%	+ .08	+ .39
180-Day Bills†	8.06	+ .09	+ .05
Longest Bills†	7.98	+ .14	- .22
Recent Issues:			
8¼s 10/15/91	7.95	+ .09	
8¼s 9/30/93	7.94	+ .06	
8s 8/15/99	7.94	+ .02	
8¼s 8/15/19	7.92	- .02	
Municipals:			
Bond Buyer—20 Bond Index* (11/2/89)	7.24%	+ .02	- .09
Blue List Total ($ Million)	$1,652	- $ 47	+ $146
30-Day Visible Supply ($ Million)	$1,991	- $443	+ $252
Total	$3,643	- $490	+ $398
Corporates:			
Moody's Aa Composite (11/2/89)	9.14	+ .02	- .46
30-Day Visible Supply ($ Million)	$2,520	- $ 15	- $460
Stocks:			
Dow-Jones Averages:			
Industrials	2,629.51	+ 32.79	+483.71
Transportation	1,211.77	+ 21.34	+282.04
Utilities	219.69	+ 3.83	+ 33.58
65 Stocks	1,006.48	+ 14.83	+195.63
N.Y.S.E. Composite Index	187.28	+ 1.68	+ 31.58
N.Y.S.E. Avg. Daily Vol. for Week (000's)	148,930	- 26,506	- 1,980

*34% Taxable equivalent 10.97%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/3/89	Week Ago
Overnight	8.63%	8.63%
1 month	8.63	8.56
3 month	8.63	8.56
6 month	8.44	8.31
1 year	8.38	8.25

FOREIGN EXCHANGE SPOT RATES New York Opening (11/3/89)	Currency Per U.S. $	Week Ago
Belgium	38.65	38.74
Canada	1.1735	1.1778
France	6.2550	6.2700
Germany	1.8440	1.8459
Italy	1353.50	1353.75
Japan	143.35	142.83
Mexico	2592.00	2584.00
Netherlands	2.0790	2.0845
South Korea	672.20	671.60
Switzerland	1.6180	1.6020
Taiwan	25.81	25.77
U.K.*	1.5702	1.5740

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (11/3/89) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.1%	-3.3%

vestments, Germany's economy surged by 4½ percent in the first half of this year from the same 1988 period. As a result, the country's real GDP growth rate is expected to exceed four percent this year, its fastest annual clip since 1976. While Europe's investment boom will keep Germany's exports growing, domestic demand will benefit from tax cuts of DM25 billion that will take effect next year as part of the government's tax reform program. As a result, Europe's largest economy should grow by more than three percent next year, nicely timed to counteract the anticipated deceleration in U.S. economic growth.

Japan, too, is expected to maintain a brisk economic growth pace despite the country's political problems. Capital spending is set to increase by 13 percent this year, following a 15 percent increase in 1988. As a result, the real economy could expand by another five percent this year and by at least four percent in 1990, following last year's 5.6 percent clip.

So while many issues still need to be addressed, such as the still hefty global trade imbalances, the U.S. budget deficit and import barriers in Japan, the industrial economies are entering the next decade in an optimistic mood. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/1/89	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	221.487	+ 2.086	- 11.841
Loans to Depository Inst.	.314	- .063	- 2.032
Float	.767	- .175	- .327
Total Reserve Bank Credit	260.572	+ 2.442	+ 4.899
Treasury Deposits with			
Federal Reserve Banks	6.436	+ 1.047	+ .239
Currency in Circulation	248.779	- .464	+11.594
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	233.384	- .674	+ 4.716
	11/1/89		
Member Bank Reserves:			
Total Reserves Held	58.695	- 1.217	- 1.286
Excess (Deficiency)	1.166	+ .241	+ .038
Net Free Reserves	.844	+ .553	+ .138
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**% Change Since Year Ago**
M1 (10/23/89)	789.0	+ 5.8	+ 0.5
M2 (10/23/89)	3,179.6	+ 8.0	+ 4.4
M3 (10/23/89)	4,036.8	+ 2.3	+ 3.9
Domestic Nonfinancial Debt (2nd Q'89)	9,427.7	+ 6.4	+ 8.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/3/89	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.80%	7.64%	7.42%
* Federal Agencies	8.38	8.20	8.10
* Municipal Notes–High Grade (34% Taxable Equivalent)	9.17	9.24	9.32
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.60	8.45	8.20

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.65%	Dec.	8.60%
15- 29 days	8.60	Jan.	8.60
30- 59 days	8.58	Feb.	8.43
60- 89 days	8.50	Mar.	8.30
90-179 days	7.80	Apr.	8.18
180-239 days	7.55	May	8.10
240-270 days	7.55		

‡ Industrial Paper–Prime			
30- 89 days	8.65%	†Federal Funds	
90-120 days	8.50	Effective Rate	8.69%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'89n	$ 5,273	$ 5,202	$ 4,927
Gross National Product (1982 Dollars)*	3rd Q'89n	$ 4,158	$ 4,133	$ 4,043
Percent Change, Annual Rate	3rd Q'89n	2.5	2.5	3.2
Change in Consumer Prices*	Sep '89	2.4%	0.0%	4.8%
Change in MH Cost of Living Index*	Sep '89	6.0%	1.2%	8.4%
Change in Producer Prices*	Sep '89	10.8%	- 4.8%	7.2%
Civilian Employment (Thousands of Persons) †	Oct '89n	117,545	117,456	115,573
Unemployment as % of Civilian Labor Force †	Oct '89n	5.3%	5.3%	5.3%
Personal Income*	Sep '89n	$ 4,469	$ 4,456r	$ 4,180
Leading Indicators Composite Index (1967=100) †	Sep '89n	145.0	144.7r	143.7
Industrial Production Index (1977=100) †	Sep '89	142.3	142.4	138.6
Net Change in Consumer Installment Credit †	Aug '89	$ 3.48	- $ 0.51	$ 5.46
U.S. Merchandise Trade Balance †	Aug '89	- $ 10.77	- $ 8.24	-$ 10.14
Plant and Equipment Expenditures*	4th Q'89	$483.04(a)	$ 481.24(a)	$442.11
Private Housing Starts (Thousands of Units)*	Sep '89	1,263	1,332	1,463
New Construction Expenditures*	Se9 '89n	$ 415.6	$ 415.8r	$ 411.5r
Total Business Inventories †	Aug '89	$ 789.9	$ 787.6	$ 737.6
Total Business Sales †	Aug '89	$ 526.8	$ 511.1	$ 492.2

*Seasonally adjusted annual rate. † Seasonally adjusted.

n-Newly reported figure. r-Revised. a-Anticipated.